

How about Section 912?
In the budgeting process, we must consider the impact of the phase out?
Report on the matter on

Dear Mr. Chairman:

~~On October 1, the House Ways and Means Committee decided to~~
recommend repeal of Section 912 of the Internal Revenue Code which excludes from gross income certain allowances paid to civilian employees of the Federal Government serving overseas. *In my view* I am writing to advise you that ~~such repeal~~ *action* would be inequitable, prejudicial to the essential operations of this Agency, potentially inflationary, and without benefit to overall U.S. Government operations.

I am very concerned that repeal of Section 912 will make it extremely difficult for the Agency to induce qualified personnel to accept assignments abroad. Already, reports of the Committee's action have dismayed our employees, especially those currently serving overseas. I know you believe, as I do, that the United States Government must attract and retain the best, most highly qualified people to serve its interests abroad. The action ~~of which~~ *which* the House Ways and Means Committee ~~has now recommended~~ *is about to* would make it very difficult for the Agency to meet these goals.

The overseas allowances in question do not represent additional compensation. They are intended to, and do in fact, defray necessary additional expenses incurred because of overseas service. The Overseas Differential Act of 1960 (P.L. 86-707) which authorizes most of these allowances, and the House and Senate Reports on that Act, clearly reflect congressional recognition that service abroad entails expenses to employees above those which the employee would incur if stationed in the United States. The tax law has long distinguished between those allowances which represent increments to income (such as the "hardship differential") and those intended to reimburse employees

for expenses incurred because of assignment overseas by the Government. These latter non-compensatory allowances include the "cost-of-living" allowance, the housing allowance, and the educational allowance. Increments to salary have traditionally been taxed. Reimbursement for extraordinary job-related expenses which do not leave the employee "better off" financially have not been taxed.

Repeal of Section 912 would not produce revenue but would in fact result in a net loss to the Government. It has been widely recognized that allowances would have to be increased to offset the taxes to be levied if Section 912 were repealed. In addition, there would be a substantial increase in the workload of simply recording payments in Government records, to say nothing of the increased burden of the employee/taxpayer in submitting his return and of the Internal Revenue Service in processing it. Disbursements which are now charged to expense at the overseas post would thereafter have to be transferred to Headquarters for a centralized control and ultimate inclusion in the tax withholding report provided to the taxpayer and to the Internal Revenue Service. The slight increase in revenue would not balance the cost of larger appropriations for allowances, in addition to the cost of non-productive record keeping at the field installation, at Headquarters, in Internal Revenue Service, and on the part of the taxpayer. We would have a situation where the tax collection system would have become an end in itself, and the Federal Government would be forced to pay more for conducting its business overseas.

Presently, the Interagency Committee on Allowances and Benefits is studying and making recommendations on the overseas allowance structure. The Interagency Committee is scheduled to complete its report in December,

*Make
Whatever
determinations*

following which the Secretary of State, myself, and other heads of overseas service agencies will ~~take whatever steps~~ may be necessary--based on the Committee's findings--to insure that Government allowances and benefits to our civilian employees serving abroad are equitable and uniformly determined and administered. If, for example, after the Interagency Committee completes its current review, it is determined that there is an element of profit in the quarters allowance as it is now administered, I would recommend re-factoring the allowance to eliminate that portion which is judged to be additional compensation. This would be preferable to taxing the whole allowance of all affected employees. These are judgments, however, which should await the completion of the Committee's study and ^{which} should not be made on the basis of incomplete information. For the Congress to act now--in the absence of essential facts and analysis--would do ^{a great disservice} ^(dedicated) to thousands of civilian overseas employees ^{with adverse consequences for the governments overseas programs.}

I am enclosing for your consideration our correspondence with the Secretary of the Treasury and the Office of Management and Budget concerning this matter.

W. E. Colby
Director

Enclosures

*I am enclosing for you
consideration a memorandum
concerning this matter.*